

Price Inflation and Cost of Living

Overview

Inflation is estimated to have increased 3.4% in 2005, compared to 2.7% in 2004, as measured by the CPI-U. The gross domestic product chain-type price deflator is estimated to have increased 2.8% in 2005, compared to a 2.6% increase in 2004.

2005 Summary

Consumer Price Index. The national rate of inflation increased at a faster rate in 2005. The Consumer Price Index Urban Consumers (CPI-U) is estimated to have increased by 3.4% in 2005, measured on an annual average basis, compared with 2.7% in 2004. The CPI-U in 2006 is forecasted to increase by 2.6%.

Gross Domestic Product Price Deflators. In 2005, the Gross Domestic Product (GDP) chain-type implicit price deflator was estimated to have increased by 2.8%. The GDP personal consumption deflator in 2005 was estimated to have increased by 2.8% compared to 2.6% in 2004. Beginning in 1996, the Real Gross Domestic Product has been reported using a chain-weighted inflation index. Under this method, the composition of economic output (weighting) is updated annually.

Utah Cost of Living. The Wells Fargo Cost of Living Index is prepared monthly and includes comparative data for the Wasatch Front. Price data for this index is produced by Case Research, an independent research firm. The methodology employed in the design of this index is reportedly similar to the Bureau of Labor Statistics Consumer Price Index.

According to the index the cost of living along the Wasatch Front remained flat during much of 2005, moving from 155.2 in October of 2004 to 155.1 in October of 2005. Declines in the price of housing offset price gains in the transportation, food at home, and clothing categories over this period. In comparison to the national figures, Utah's prices appeared to be more stable than those throughout the country, which increased at 4.3% over the same period.

Significant Issues

Labor Market. Utah witnessed a decrease in the unemployment rate in 2005 moving from 5.2% in 2004 to 4.7% in 2005. Utah's rate declined at a slightly faster rate than the nation, which moved from 5.5% in 2004 to 5.1% in 2005. Unemployment is expected to continue to fall during 2005. Average wage growth in Utah failed to keep pace with the U.S. for the third consecutive year; in 2004 the average annual pay in Utah was 81.7% of the nation's average, in 2005 it dropped to 81.0% according to the Bureau of Labor Statistics. However, the wage growth in 2005 was above that of inflation, as the real wage grew at 0.8%. Utah nonagricultural job growth also realized a 3.5% increase in 2005, compared to a 2.8% increase in 2004.

Housing. According to Freddie Mac, interest rates on 30-year and 15-year fixed-rate mortgages in 2005 were some of the lowest in three decades. However, it is expected that mortgage rates will begin to increase throughout 2006. Whether these modest increases will dampen the booming growth in construction will depend on the relative price move-

ments of other housing markets. The Office of Federal Housing Price Oversight indicated that Utah's housing price appreciation is beginning to catch up to cooling national prices; moving from last place (51st) in the nation in the second quarter of 2004 to 22nd in the nation in the third quarter of 2005.

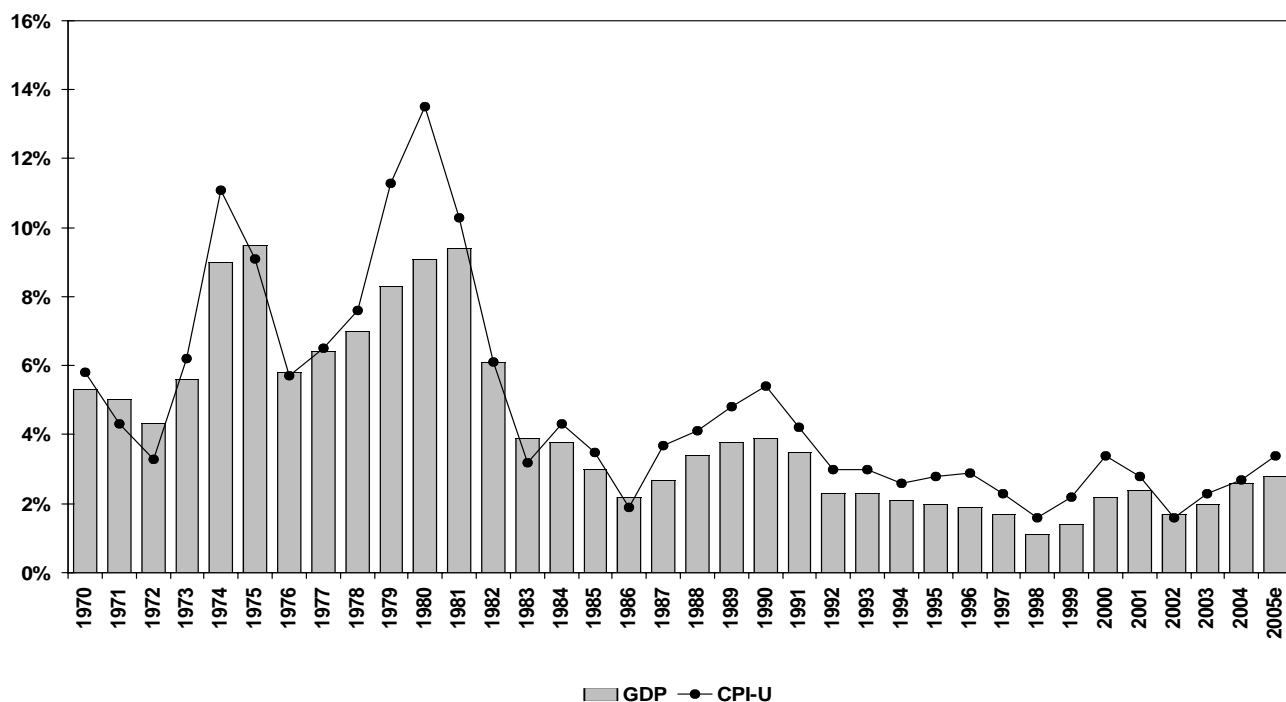
Federal Reserve. In an attempt to curb inflation fears, the federal funds rate has increased at a measured pace throughout 2004 and 2005. The Federal Open Market Committee (FOMC) has gradually increased the rate from 1% in June of 2004 to 4.25% in December of 2005. However, interest rates in 2005 and those projected through 2006 remain, from a historical perspective, relatively low.

Conclusion

Economic indicators show a robust and growing national economy in 2006. Inflation fears seem to have been contained; high energy prices have not derailed the economy. However, national worries of overvalued housing markets will remain a concern through 2006. Unemployment is expected to remain stable, perhaps inching downward throughout the year.

Figure 42

U.S. Consumer Price Index (CPI-U) and GDP Deflator: Average Annual Percent Change



e = estimate

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, estimates by Governor's Office of Planning and Budget

Table 47

Wells Fargo Cost of Living Index Wasatch Front-Area

Year	Month	Housing	Transportation	Health Care	Food at Home	Clothing	Food Away	Utilities	Recreation	Education & Communications	Other Goods & Services	All Categories
2004	Sep	177.8	142.0	157.2	183.9	116.5	162.2	123.9	129.9	118.7	104.2	154.2
	Oct	177.8	146.9	157.2	185.3	116.7	162.2	123.9	129.9	118.7	104.2	155.2
	Nov	177.8	145.5	157.2	185.4	116.0	162.2	123.9	129.9	118.7	104.2	155.0
	Dec	177.5	141.8	157.1	185.1	110.5	162.2	123.9	129.9	118.7	104.2	153.8
2005	Jan	177.5	140.7	157.1	181.4	111.4	162.2	123.9	129.9	118.7	104.2	153.3
	Feb	177.5	143.7	157.2	180.7	113.9	162.2	123.9	129.9	118.7	104.2	153.9
	Mar	177.5	149.9	157.2	179.6	113.9	162.2	123.9	129.9	118.7	104.2	154.9
	Apr	178.5	154.7	157.2	184.0	108.4	162.2	131.4	129.9	118.7	104.2	157.0
	May	178.5	153.1	157.2	185.9	109.9	162.2	131.4	129.9	118.7	104.2	157.0
	Jun	178.5	152.3	157.2	185.7	118.1	162.2	131.4	129.9	118.7	104.2	157.3
	Jul	178.5	154.8	157.2	185.1	118.1	162.2	131.4	129.9	118.7	104.2	157.7
	Aug	178.5	163.8	157.2	184.7	118.3	162.2	131.4	129.9	118.7	104.2	159.3
	Sep	178.5	170.1	157.4	186.1	119.2	162.2	131.4	129.9	118.7	104.2	160.6

Sources: Wells Fargo Bank Northwest, N.A.

Table 48

U.S. Consumer Price Index for All Urban Consumers (1982-1984=100): (Not Seasonally Adjusted)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Avg. Index	Dec-Dec Percent Change	Annual Avg. Percent Change
1959	29.0	28.9	28.9	29.0	29.0	29.1	29.2	29.2	29.3	29.4	29.4	29.4	29.1		
1960	29.3	29.4	29.4	29.5	29.5	29.6	29.6	29.6	29.6	29.8	29.8	29.8	29.6	1.4%	1.5%
1961	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.9	30.0	30.0	30.0	29.9	0.7%	1.1%
1962	30.0	30.1	30.1	30.2	30.2	30.2	30.3	30.3	30.4	30.4	30.4	30.4	30.2	1.3%	1.2%
1963	30.4	30.4	30.5	30.5	30.5	30.6	30.7	30.7	30.7	30.8	30.8	30.9	30.6	1.6%	1.2%
1964	30.9	30.9	30.9	30.9	30.9	31.0	31.1	31.0	31.1	31.1	31.2	31.2	31.0	1.0%	1.3%
1965	31.2	31.2	31.3	31.4	31.4	31.6	31.6	31.6	31.6	31.7	31.7	31.8	31.5	1.9%	1.6%
1966	31.8	32.0	32.1	32.3	32.3	32.4	32.5	32.7	32.7	32.9	32.9	32.9	32.4	3.0%	3.0%
1967	32.9	32.9	33.0	33.1	33.2	33.3	33.4	33.5	33.6	33.7	33.8	33.9	33.4	3.0%	2.8%
1968	34.1	34.2	34.3	34.4	34.5	34.7	34.9	35.0	35.1	35.3	35.4	35.5	34.8	4.7%	4.3%
1969	35.6	35.8	36.1	36.3	36.4	36.6	36.8	37.0	37.1	37.3	37.5	37.7	36.7	6.2%	5.5%
1970	37.8	38.0	38.2	38.5	38.6	38.8	39.0	39.0	39.2	39.4	39.6	39.8	38.8	5.6%	5.8%
1971	39.8	39.9	40.0	40.1	40.3	40.6	40.7	40.8	40.8	40.9	40.9	41.1	40.5	3.3%	4.3%
1972	41.1	41.3	41.4	41.5	41.6	41.7	41.9	42.0	42.1	42.3	42.4	42.5	41.8	3.4%	3.3%
1973	42.6	42.9	43.3	43.6	43.9	44.2	44.3	45.1	45.2	45.6	45.9	46.2	44.4	8.7%	6.2%
1974	46.6	47.2	47.8	48.0	48.6	49.0	49.4	50.0	50.6	51.1	51.5	51.9	49.3	11.1%	11.1%
1975	52.1	52.5	52.7	52.9	53.2	53.6	54.2	54.3	54.6	54.9	55.3	55.5	53.8	6.9%	9.1%
1976	55.6	55.8	55.9	56.1	56.5	56.8	57.1	57.4	57.6	57.9	58.0	58.2	56.9	4.9%	5.7%
1977	58.5	59.1	59.5	60.0	60.3	60.7	61.0	61.2	61.4	61.6	61.9	62.1	60.6	6.7%	6.5%
1978	62.5	62.9	63.4	63.9	64.5	65.2	65.7	66.0	66.5	67.1	67.4	67.7	65.2	9.0%	7.6%
1979	68.3	69.1	69.8	70.6	71.5	72.3	73.1	73.8	74.6	75.2	75.9	76.7	72.6	11.3%	11.3%
1980	77.8	78.9	80.1	81.0	81.8	82.7	82.7	83.3	84.0	84.8	85.5	86.3	82.4	13.5%	13.5%
1981	87.0	87.9	88.5	89.1	89.8	90.6	91.6	92.3	93.2	93.4	93.7	94.0	90.9	8.9%	10.3%
1982	94.3	94.6	94.5	94.9	95.8	97.0	97.5	97.7	98.2	98.2	98.0	97.6	96.5	3.8%	6.1%
1983	97.8	97.9	97.9	98.6	99.2	99.5	99.9	100.2	100.7	101.0	101.2	101.3	99.6	3.2%	3.2%
1984	101.9	102.4	102.6	103.1	103.4	103.7	104.1	104.5	105.0	105.3	105.3	105.3	103.9	3.9%	4.3%
1985	105.5	106.0	106.4	106.9	107.3	107.6	107.8	108.0	108.3	108.7	109.0	109.3	107.6	3.8%	3.5%
1986	109.6	109.3	108.8	108.6	108.9	109.5	109.5	109.7	110.2	110.3	110.4	110.5	109.6	1.1%	1.9%
1987	111.2	111.6	112.1	112.7	113.1	113.5	113.8	114.4	115.0	115.3	115.4	115.4	113.6	4.4%	3.7%
1988	115.7	116.0	116.5	117.1	117.5	118.0	118.5	119.0	119.8	120.2	120.3	120.5	118.3	4.4%	4.1%
1989	121.1	121.6	122.3	123.1	123.8	124.1	124.4	124.6	125.0	125.6	125.9	126.1	124.0	4.6%	4.8%
1990	127.4	128.0	128.7	129.9	129.2	129.9	130.4	131.6	132.7	133.5	133.8	133.8	130.7	6.1%	5.4%
1991	134.6	134.8	135.0	135.2	135.6	136.0	136.2	136.6	137.2	137.4	137.8	137.9	136.2	3.1%	4.2%
1992	138.1	138.6	139.3	139.5	139.7	140.2	140.5	140.9	141.3	141.8	142.0	141.9	140.3	2.9%	3.0%
1993	142.6	143.1	143.6	144.0	144.2	144.4	144.4	144.8	145.1	145.7	145.8	145.8	144.5	2.7%	3.0%
1994	146.2	146.7	147.2	147.4	147.5	148.0	148.4	149.0	149.4	149.5	149.7	149.7	148.2	2.7%	2.6%
1995	150.3	150.9	151.4	151.9	152.2	152.5	152.5	152.9	153.2	153.7	153.6	153.6	152.4	2.5%	2.8%
1996	154.4	154.9	155.7	156.3	156.6	156.7	157.0	157.3	157.8	158.3	158.6	158.6	156.9	3.3%	2.9%
1997	159.1	159.6	160.0	160.2	160.1	160.3	160.5	160.8	161.2	161.6	161.5	161.3	160.5	1.7%	2.3%
1998	161.6	161.9	162.2	162.5	162.8	163.0	163.2	163.4	163.6	163.9	164.0	163.9	163.0	1.6%	1.6%
1999	164.3	164.5	165.0	166.2	166.2	166.2	166.7	167.1	167.9	168.2	168.3	168.3	166.6	2.7%	2.2%
2000	168.8	169.8	171.2	171.3	171.5	172.4	172.8	172.8	173.7	174.0	174.1	174.0	172.2	3.4%	3.4%
2001	175.1	175.8	176.2	176.9	177.7	178.0	177.5	177.5	178.3	177.7	177.4	176.7	177.1	1.6%	2.8%
2002	177.1	177.8	178.8	179.8	179.8	179.9	180.1	180.7	181.0	181.3	181.3	180.9	179.9	2.4%	1.6%
2003	181.7	183.1	184.2	183.8	183.5	183.7	183.9	184.6	185.2	185.0	184.3	184.0	184.0	1.9%	2.3%
2004	185.2	186.2	187.4	188.0	189.1	189.7	189.4	189.5	189.9	190.9	191.0	190.3	188.9	3.3%	2.7%
2005	190.7	191.8	193.3	194.6	194.4	194.5	195.4	196.4	198.8	199.2	197.6	197.4e	195.3e	3.7%	3.4%

e = estimate

Sources: U.S. Bureau of Labor Statistics and estimates by the Governor's Office of Planning and Budget

Table 49

Gross Domestic Product Price Deflators: 2000=100

Year	Gross Domestic Product (Chain-Type) Deflator	Change from Previous Year	Personal Consumption Expenditures (Chain-Type) Deflator	Change from Previous Year
1969	27.6		26.7	
1970	27.5	5.3%	26.4	4.7%
1971	28.9	5.0%	27.6	4.3%
1972	30.2	4.3%	28.5	3.5%
1973	31.8	5.6%	30.1	5.4%
1974	34.7	9.0%	33.2	10.3%
1975	38.0	9.5%	36.0	8.3%
1976	40.2	5.8%	37.9	5.5%
1977	42.8	6.4%	40.4	6.5%
1978	45.8	7.0%	43.2	7.0%
1979	49.5	8.3%	47.1	8.8%
1980	54.0	9.1%	52.1	10.7%
1981	59.1	9.4%	56.7	8.9%
1982	62.7	6.1%	59.9	5.5%
1983	65.2	3.9%	62.4	4.3%
1984	67.7	3.8%	64.8	3.8%
1985	69.7	3.0%	66.9	3.3%
1986	71.3	2.2%	68.6	2.4%
1987	73.2	2.7%	70.9	3.5%
1988	75.7	3.4%	73.8	4.0%
1989	78.6	3.8%	77.0	4.4%
1990	81.6	3.9%	80.5	4.6%
1991	84.4	3.5%	83.4	3.6%
1992	86.4	2.3%	85.8	2.9%
1993	88.4	2.3%	87.8	2.3%
1994	90.3	2.1%	89.7	2.1%
1995	92.1	2.0%	91.6	2.1%
1996	93.9	1.9%	93.5	2.2%
1997	95.4	1.7%	95.1	1.7%
1998	96.5	1.1%	96.0	0.9%
1999	97.9	1.4%	97.6	1.7%
2000	100.0	2.2%	100.0	2.5%
2001	102.4	2.4%	102.1	2.1%
2002	104.2	1.7%	103.5	1.4%
2003	106.3	2.0%	105.5	1.9%
2004	109.1	2.6%	108.2	2.6%
2005e	112.1	2.8%	111.3	2.8%

e = estimate

Sources: Bureau of Economic Analysis and estimates by the Governor's Office of Planning and Budget